

Message Text

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ACTION NEA-13

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PRS-01 MC-02 DRC-01 /135 W

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R 200430Z FEB 74

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 6208

INFO AMEMBASSY KUWAIT

USINT ALGIERS

AMEMBASSY ABU DHABI

USINT CAIRO

AMCONSUL DHAHREN

AMEMBASSY BEIRUT

S E C R E T SECTION 1 OF 2 JIDDA 829

BEIRUT PASS DAMASCUS

E.O. 11652: GDS

TAGS: PFOR, SA, US

SUBJECT: EFFECT ON US-SAUDI RELATIONS OF SUSPENSION

OF US PEACE EFFORTS

REF JIDDA 694

SUMMARY: IF THE U.S. PUBLICLY AND WITH CALCULATED
EFFECT CEASES ITS PEACEMAKING EFFORTS IN THE ME AS
A RESULT OF ARAB CONTINUATION OF THE OIL BOYCOTT,
THERE IS BOUND TO BE SOME STRAIN IN SAUDI-U.S. RELA-
TIONS AND DAMAGE TO U.S. INTERESTS IN SAUDI ARABIA.
THE DEGREE OF STRAIN AND DAMAGE WILL DEPEND UPON THE
EXTENT TO WHICH THE U.S. CHOOSES PUBLICLY AND OTHER-
WISE TO SEEK CONFRONTATION WITH THE SAG, WHAT STATE-
MENTS ARE MADE BY THE U.S., AND TO WHAT EXTENT IT SEEKS
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TO HUMILIATE SAUDI ARABIA. MANY OPTIONS WOULD BE OPEN

TO KING FAISAL. SOME HE WOULD TAKE DESPITE HIS LIFE-LONG FRIENDSHIP FOR THE U.S.; OTHERS HE WOULD RESIST UNTIL HE THOUGHT HIMSELF IN SERIOUS CONFRONTATION WITH THE U.S. AMONG THE MOST PROBABLE WOULD BE SAUDI CESSATION OF ITS EFFORTS TO PERSUADE OTHER ARAB STATES TO AGREE TO LIFTING THE BOYCOTT. IN THE ECONOMIC AREA, FAISAL WOULD BE LIKELY TO ACCELERATE THE SIGNING OF BILATERAL PETROLEUM AGREEMENTS WITH EUROPEAN STATES, JAPAN, AND OTHER LARGE OIL CONSUMERS. THIS WOULD RESULT IN FOREIGN FIRMS HAVING A DECISIVE EDGE IN INDUSTRIALIZATION PROJECTS IN THE KINGDOM. SOME \$5 BILLION IN INDUSTRIAL JOINT VENTTURES PROPOSED BY U.S. FIRMS OR U.S. MULTINATIONAL COMPANIES WOULD BE DELAYED, CANCELLED, OR TAKEN OVER BY OTHERS. IMPORTANT CONSTRUCTION CONTRACTS WOULD NOT GO TO LOW AMERICAN BIDDERS AND THE GROWING INFLUENCE OF U.S. BANKS AND FINANCIAL EXPERTS ON SAUDI POLICY WOULD BE SEVERELY ERODED. SAUDI ARABIA WOULD BE LESS HELPFUL TO THE AMERICAN MULTILATERAL APPROACH TO HANDLING THE MONETARY CRISIS. THERE WOULD BE LESS SAG INTEREST IN INCREASING OIL PRODUCTION TO REDUCE PRICES AND THE SAG WOULD BE LIKELY DRASTICALLY TO SPEED UP THE DAY WHEN U.S. OWNERSHIP OF AND ACCESS TO THE OIL OF SAUDI ARABIA IS ENDED. ON THE MILITARY SIDE, IT IS UNLIKELY THAT THE SAG WOULD TAKE THE INITIATIVE TO TERMINATE ONGOING PROJECTS. HOWEVER, UNLESS THE U.S. BECOMES MORE RESPONSIVE TO SAUDI PROGRAM AND EQUIPMENT REQUESTS WE WILL FIND OUR SPECIAL RELATIONSHIP IN THE MILITARY FIELD RAPIDLY FADING, AS THE INFLUENCE OF OTHERS, PARTICULARLY THE FRENCH AND BRITISH, GROWS.

END SUMMARY.

1. IF THE ARAB EMBARGO OF OIL TO THE U.S. CONTINUES, THE U.S. CANNOT BE EXPECTED TO PURSUE ITS PEACE EFFORT IN THE MIDDLE EAST. WE HAVE INFORMED THE SAUDIS OF THIS REPEATEDLY, AND IF WE NOW CONTINUE OUR PEACE EFFORTS IN SYRIA--OR EVEN ON THE EGYPTIAN-ISRAELI FRONT--OUR CREDIBILITY WOULD BE DESTROYED AND OUR CHANCES OF GETTING THE BOYCOTT LIFTED BEFORE THE FINAL ISRAELI-ARAB PEACE TREATY WOULD DROP TO ZERO. IF WE QUIETLY STOP OUR PEACE EFFORTS, INFORM THE ARABS OF OUR DEEP REGRET AT BEING

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UNABLE TO CONTINUE, THEN WE SHOULD BE ABLE TO PRESERVE OUR IMPORTANT ECONOMIC AND POLITICAL INTERESTS IN S.A.

2. IF ON THE OTHER HAND, WE REACT BY PUBLICLY ANNOUNCING THE END OR SUSPENSION OF OUR PEACEMAKING EFFORTS; IF WE INFORM THE SAUDIS THAT WE WILL BE FORCED TO REVIEW OUR RELATIONSHIP; AND IF WE TAKE PUNITIVE MEASURES (E.G. STOPPING ARMS SALES), WE SHOULD BE PREPARED FOR COUNTER-

REACTION BY THE SAG. THE SAG. THE FORCE OF THIS COUNTERREACTION WILL BE KEYED TO OUR OWN ACTIONS, BEING STRONGER THE MORE THE SAG IS SINGLED OUT FOR CRITICISM.

3. WHAT SAUDI ACTIONS ARE LIKELY IN THE EVENT WE PRECIPITATE A FAIRLY SHARP DETERIORATION IN OUR RELATIONS?

4. PETROLEUM: FOR VARIOUS REASONS THE SAG HAS TO DATE BEEN UNWILLING TO SIGN LONG-TERM OR EVEN MEDIUM-TERM CRUDE OIL SUPPLY CONTRACTS. CLEARLY PART OF THIS HESITATION STEMS FROM U.S. OPPOSITION TO SUCH DEALS. THE SAG WOULD MOST PROBABLY CHOOSE TO SPEED UP THE SIGNING OF LONGER-TERM "CRUDE-OIL-FOR-INDUSTRIALIZATION" BILATERALS WITH JAPAN, FRANCE, THE UK, ITALY AND PERHAPS LATER WITH GERMANY AND SMALLER CONSUMERS. THESE AGREEMENTS WOULD PROBABLY BE FOR FIVE OR AT MOST TEN YEARS BUT THEY WOULD NONETHELESS BE OF SIGNIFICANT SIZE AND PREMPT FOR THE COUNTRIES WHICH MADE THEM THE INDUSTRIALIZATION OF THE KINGDOM AND PERHAPS OF NEARBY ARAB COUNTRIES.

5. THE SAG WOULD ALSO BE LIKELY DRastically TO SPEED THE DAY WHEN THERE IS NO U.S. OWNERSHIP OF OIL CONCESSIONS OR DIRECT ACCESS, THROUGH THE OIL COMPANIES, TO SAUDI OIL. ARAMCO MIGHT BE NATIONALIZED AND THE PARENT COMPANY RELATIONSHIPS WITH THE SAG WOULD THEN RESEMBLE THOSE OF EUROPEAN OR JAPANESE FIRMS SEEKING OIL FROM THE KINGDOM. THE MOST IMMEDIATE EFFECT OF ALL, HOWEVER, WOULD CERTAINLY BE THE CESSATION OF SAUDI EFFORTS TO PERSUADE THE OTHER ARAB COUNTRIES TO LIFT THE BOYCOTT.

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6. COMMERCE AND INDUSTRY: THE LARGEST INDUSTRIALIZATION PROPOSALS FOR THE KINGDOM HAVE THUS FAR COME FROM AMERICAN MULTINATIONAL FIRMS. U.S. SPONSORED INDUSTRIAL DEVELOPMENT SUCH AS THE MARCONA STEEL PLANT WOULD BE CANCLED AND EVENTUALLY ACCOMPLISHED BY JAPANESE OR OTHER FIRMS. MAJOR CONSTRUCTION PROJECTS SUCH AS THE NEW JIDDA AIRPORT IN WHICH AMERICAN FIRMS ARE HIGHLY COMPETITIVE WOULD GO TO FOREIGN COMPANIES. SAUDI IMPORTS IN 1973 WERE ALMOST \$2 BILLION AND ARE GROWING AT A 30 PER CENT RATE. THE U.S. SHARE RPT SHARE OF THE MARKET HAS BEEN GROWING A
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7. FINANCE: WITH REGARD TO MONETARY AFFAIRS, THE CURRENT MAJOR INFLUENCE OF U.S. BANKING INSTITUTIONS AND FINANCIAL PERSONALITIES IS LIKELY TO WANE AND BE REPLACED BY THAT OF EUROPEAN (AND PERHAPS ARAB) FINANCIAL INSTITUTIONS AND EXPERTS. THE CURRENT RELATIVELY HELPFUL AND OPEN ATTITUDE OF THE SAUDI GOVERNMENT TOWARDS U.S. POSITIONS IN THE IMF AND OTHER INTERNATIONAL BODIES IS LIKELY TO CHANGE SHARPLY AS THE SAUDIS SEEK OTHER OPTIONS (PARTICULARLY EUROPEAN) FOR THE INVESTMENT OF THEIR RESERVES-- WHICH ARE GROWING \$50 MILLION A DAY. OUR INFLUENCE OVER THE USE OF SURPLUS SAUDI FUNDS, AS FOR INSTANCE IN ASSISTANCE PROJECTS, WILL BE LIMITED.

8. MILITARY RELATIONSHIP: IN JIDDA 694 WE POINTED OUT THAT UNDER MOST CIRCUMSTANCES IT WILL NOT BE THE SAG WHICH SEEKS TO TERMINATE OUR PRESENT CLOSE MILITARY SUPPLY AND TRAINING RELATIONSHIP. HOWEVER, OUR ATTEMPTING TO USE THIS RELATIONSHIP TO INFLUENCE SAUDI

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POLICY OR OTHERWISE REMAINING UNRESPONSIVE TO SAUDI ARMS REQUESTS WILL BRING ABOUT THE END OF THIS SPECIAL RELATIONSHIP, SPEED THE PROCESS OF DIVERSIFICATION OF MILITARY ADVISERS AND EQUIPMENT, AND HASTEN THE EROSION OF OUR POLITICAL POSITION. IN SHORT, OUR MILI-

TARY RELATIONSHIP IS NOT A VIALBLE LEVER WITH WHICH TO MOVE THE SAG. IT MIGHT TAKE DECADES TO REGAIN LOST INFLUENCE OVER THE SAUDI ARMED FORCES AND POSSIBLY BILIONS IN ARMS SALES WOULD GO TO EUROPEAN RATHER THAN U.S. FIRMS.

9. CONCLUSION: SAUDI ARABIA AND THE U.S. CAN CLEARLY SURVIVE WITHOUT EACH OTHER, BUT IN ANY CONFRONTATION BOTH WOULD SUFFER. WE SHOULD BE CAREFUL NOT TO OVER EMPHASIZE THE DEGREE TO WHICH SAUDI ARABIA WOULD BE HURT BY SUCH ACTION, NOR SHOULD WE UNDERESTIMATE THE EASE WITH WHICH SAUDI ARABIA COULD REPLACE THE U.S. ECONOMIC AND MILITARY PRESENCE. IN SHORT, IT SEEMS TO US THAT IT IS THE U.S. WHICH WOULD HAVE THE MORE TO LOSE IF OUR RELATIONS WITH THE SAG ARE ALLOWED TO DETERIORATE. IT IS IN OUR INTEREST TO MAINTAIN OUR FAVORED POSITION, BOTH POLITICAL AND ECONOMIC IN SAUDI ARABIA. WE STRONGLY URGE THEREFORE, IF OUR PEACE EFFORTS SHOULD BE CHECKED BY ARAB REFUSAL TO LIFT THE OIL BOYCOTT, THAT ANY ANNOUNCEMENT BE SORROWFUL AND CONCILIATORY, THAT THE U.S. TAKE NO ACTION WHICH WOULD PRECIPITATE FURTHER DETERIORATION OF OUR RELATIONS WITH THE SAG, AND--SPECIFICALLY--THAT WE AVOID PUBLIC RECRIMINATIONS WITH THE SAUDI GOVERNMENT.

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